

Message Text

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ACTION EB-07

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C O N F I D E N T I A L REYKJAVIK 0832

E.O. 11652: GDS

TAGS: EFIN, EIND, EINV

SUBJECT: FOREIGN INVESTMENT CLIMATE AND STATISTICS

REF: A. REYKJAVIK 0682

B. STATE 165596

1. BEGIN UNCLASSIFIED - SUMMARY. PRINCIPAL CHANGE IN ICELAND SINCE LAST YEAR (REFTEL A) IS THE NEW GOVERNMENT, WHICH RECENTLY SIGNED JOINT VENTURE AGREEMENT WITH UNION CARBIDE FOR FERROSILICON PLANT (REYKJAVIK A-32 OF MAY 5, 1975.) WHILE PRESENT GOVERNMENT IS MORE FAVORABLE DISPOSED TO FOREIGN INVESTMENT, ITS APPROACH IS CAUTIOUS. IT DOES NOT APPEAR TO GO OUT OF ITS WAY TO ENCOURAGE FOREIGN INVESTMENT AND PROPOSALS ARE CONSIDERED ON A CASE-BY-CASE BASIS.

2. BEGIN NARRATIVE. ICELAND'S RECOVERY FROM LAST YEAR'S ECONOMIC SLOWDOWN IS GOING SLOWLY WITH NO SIGNIFICANT IMPROVEMENT EXPECTED BEFORE 1976. THE HIGH INFLATION, INCREASING WAGES, AND FLUCTUATING EXCHANGE RATE, COMBINED WITH LIMITED MANPOWER AND A DEBT-BURDENED GOVERNMENT, TEND TO MAKE DISCOURAGING ICELAND'S FOREIGN INVESTMENT PROSPECTS. THE GOVERNMENT POSITION IS ESPECIALLY IMPORTANT SINCE ICELANDIC GOVERNMENT PARTICIPATION WOULD MOST LIKELY BE REQUIRED IN ANY MAJOR FOREIGN INVESTMENT.

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IN AN ECONOMY AS SMALL AS ICELAND, THE GOVERNMENT IS ONE OF

THE FEW INSTITUTIONS WITH THE POTENTIAL FOR COMING UP WITH THE NECESSARY FINANCES TO TAKE PART IN A SIGNIFICANT JOINT VENTURE.

3. RECENT APPROVAL OF THE LONG CONSIDERED JOINT VENTURE WITH UNION CARBIDE SIGNALS AN IMPROVEMENT IN THE POLITICAL CLIMATE BUT SUCH APPROVAL DID NOT COME EASILY OR SPEEDILY. IT TOOK EIGHT MONTHS OF CONSIDERATION BY THE NEW GOVERNMENT ACCOMPANIED BY CONSIDERABLE DEBATE BEFORE THE NECESSARY APPROVAL WAS GIVEN BY PARLIAMENT, WHICH IS USUALLY REQUIRED FOR LARGE INVESTMENTS. NEW PROPOSALS FOR LARGE SCALE INVESTMENT CAN BE EXPECTED TO RECEIVE CONSIDERABLE SCRUTINY BY ICELANDERS BEFORE APPROVAL WILL BE FORTHCOMING. ENVIRONMENTAL AND CULTURAL CONSIDERATIONS LOOM LARGE IN WINNING OVER PUBLIC SENTIMENT.

4. ICELAND'S EXPERIENCE IN THE FOREIGN INVESTMENT FIELD IS LIMITED TO A SWISS-OWNED ALUMINUM SMELTER, A 48 PER CENT US-OWNED DIATOMITE PLANT, AND THE PLANNED 45 PERCENT US-OWNED FERROSILICON SMELTER. THE AMERICAN FIRMS ARE JOHNS MANVILLE AND UNION CARBIDE, AND THE ICELANDIC GOVERNMENT IS THE MAJORITY PARTNER. LACKING AN ESTABLISHED BODY OF LAWS OR REGULATIONS GOVERNING FOREIGN INVESTMENT, FOREIGN FIRMS CAN EXPECT TO DEAL VERY MUCH ON AN AD HOC BASIS, AND THE CASE OF ANY MAJOR PROJECT, WITH REPRESENTATIVES OF THE VARIOUS POLITICAL PARTIES THAT FORM THE GOVERNMENT OF THAT TIME.

5. A POPULATION OF ONLY 216,000 ALL BUT RULES OUT INVESTMENT TO SERVE THE LOCAL MARKET, AND LIMITED NATURAL RESOURCES - PRINCIPALLY CHEAP HYDROELECTRIC POWER - RESTRICT FOREIGN INVESTMENT PRIMARILY TO ENERGY INTENSIVE INDUSTRIES SUCH AS THE ALUSUISSE ALUMINUM SMELTER AND THE FERROSILICON PLANT. ELECTRIC GENERATING FACILITIES ARE ALL GOVERNMENT OWNED. FUTURE DEVELOPMENT OF A CHEMICAL INDUSTRY USING GEOTHERMALLY-HEATED SEA WATER IS A POSSIBILITY. BEYOND THESE AREAS THERE IS NOTHING FOR THE PRESENT THAT WOULD WARRANT FOREIGN INVESTMENT OF ANY REAL MAGNITUDE.

6. ICELAND IS A DEMOCRATIC AND HIGHLY LITERATE NATION, HEAVILY DEPENDENT ON ITS FISHING INDUSTRY AND ANXIOUS TO DIVERSIFY ITS ECONOMY THROUGH INDUSTRIALIZATION. A STRONG TRADE UNION MOVEMENT AND UNION JURISDICTION DISPUTES ARE OTHER

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FACTORS TO BE CONSIDERED BY POTENTIAL FOREIGN INVESTORS.

7. END NARRATIVE. BEGIN CONFIDENTIAL. AN IMPORTANT POINT TO NOTE IS THE INDIVIDUAL POLITICS OF GOVERNMENT MINISTERS WITH RESPECT TO INVESTMENT. FOR INSTANCE, THE PRIME MINISTER FAVORED QUICK ACTION ON THE UNION CARBIDE INVESTMENT. SOME OF THE DELAY WAS DUE TO ANOTHER INDEPENDENCE PARTY CABINET MINISTER (INDUSTRY), A POLITICAL RIVAL WITHIN THE PARTY, WHO FAVORED

EXPANSION OF THE SWISS PLANT AND WHO PERSONALLY IS DISPOSED TO
HELP OUT ALUSUISSE IN PREFERENCE TO THE US FIRM. IT IS
OUR UNDERSTANDING PRESSURE HAD TO BE BROUGHT TO BEAR ON THE
MINISTER OF INDUSTRY TO SUBMIT THE UNION CARBIDE PROPOSAL TO
THE PARLIAMENT. END CONFIDENTIAL.

8. BEGIN UNCLASSIFIED. STATISTICS REQUESTED ARE AS FOLLOWS:

A. US DIRECT INVESTMENT. (SOURCE: CHAMBER OF COMMERCE)

DIATOMITE PLANT - JOHNS MANVILLE - \$3.6 MILLION
FERROSILICON PLANT - UNION CARBIDE - \$27 MILLION
(CONSTRUCTION TO BEGIN IN 1976)

B. OTHER FOREIGN INVESTMENT. (CHAMBER OF COMMERCE)

ALUMINUM PLANT - ALUSUISSE - \$83 MILLION

C. ICELANDIC INVESTMENT IN US

FISH FREEZING PLANT - ICELAND PRODUCTS - \$2.5 MILLION
(SOURCE: SAMBAND - PARENT FIRM)

FISH FREEZING PLANT - COLDWATER SEAFOOD CORP. - \$13.5 MILLION
(SOURCE: EMBASSY ESTIMATE)

9. ABOVE DATA IS 1974 BOOKVALUE EXCEPT DIATOMITE PLANT IS 1973
BOOK VALUE. ADDITIONAL INFORMATION ON INVESTMENT IN ICELAND IS
CURRENT IN MARCH 1975 COMMERCE PUBLICATION MARKETING IN ICELAND
(OVERSEAS BUSINESS REPORT).
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